

AGENDA ITEM: CLSA Interlibrary Loan, Universal Borrowing, Equal Access Program

ISSUES TO COME BEFORE THE BOARD AT THIS MEETING:

1. Consider prorating the CLSA loan reimbursement program for 2002/03.
2. Consider BCP for CLSA ILL and Direct Loan programs for 2003/04.

RECOMMENDED MOTION FOR CONSIDERATION BY THE BOARD: I move that the Library of California Board direct its Chief Executive Officer to withhold 35% of all CLSA ILL and Direct Loan Program reimbursement payments throughout the 2002/03 fiscal year and that, after determining the full State cost of the ILL and Direct Loan programs for the 2002/03 fiscal year, direct the Chief Executive Officer to pay the full amount remaining due to each participating library if sufficient funds remain in the 2002/03 CLSA ILL and Direct Loan Program appropriation, or to prorate the final payment equitably if insufficient funds remain in the 2002/03 CLSA ILL and Direct Loan Program appropriation.

RECOMMENDED MOTION FOR CONSIDERATION BY THE BOARD: I move that the Library of California Board direct its Chief Executive Officer to seek additional 2003/04 local assistance funding in the amount of \$1,245,000 to eliminate the documented shortfall for qualifying CLSA Direct Loan and Interlibrary Loans.

ISSUE 1: Consider prorating the CLSA loan reimbursement program for 2002/03.

BACKGROUND:

By agreement with the Department of Finance, the annual State appropriation for the CLSA Interlibrary Loan and Direct Loan Programs is determined by the Enrollment/Caseload/Population (ECP) process. This method was selected because the costs of the loan programs are driven by factors that are, essentially, beyond the control of local and State government. More specifically the costs are determined by the actual handling costs realized in libraries providing the service and the actual number of times the service is utilized by Californians. While the handling costs are, to a certain extent, controllable by individual participating libraries, the statewide average cannot be easily controlled or predicted. The second factor, usage, can only be controlled by clearly inequitable means; that is, by denying services to individuals after a calculated maximum number of transactions has occurred.

For these reasons, the ILL and Direct Loan program appropriation in any single fiscal year, is

based on estimates of the increase or decrease in handling cost, and projections of the levels of use, as well as the availability of funds. The program has been extremely successful and popular, but its history has been marked by years of shortfalls in the annual appropriation. The 2001/02 Budget Act contained language requiring the Board to prorate reimbursement payments in the event of an insufficient appropriation. It is expected that the 2002/03 Budget Act will continue to provide for a pro rata provision in case there are insufficient funds in the program budget to reimburse all participants at approved levels.

The 2001/02 pro rating requirement states:

Should the funds appropriated in Schedule (c) be insufficient to fully cover all transactions under the Direct Loan and Interlibrary Loan programs of the California Library Services Act, funding shall be prorated such that expenditures for the program are within the appropriation made in Schedule (c) of this item.

This requirement, being a more recent act of the Legislature supersedes the requirement in the CLSA law that the State Board reimburse at the full rate adopted by the Board and as approved by the Department of Finance. However, it does not set aside the provision of Education Code Section 18703(f) to reimburse participating libraries equitably.

In August 2001, the Board adopted the method for implementing the prorating requirement by withholding a percentage of each valid claim throughout the course of the fiscal year, paying the remainder due, or a pro rated portion of the remainder due, after the close of the fiscal year.

The actual experience of the 2001/2002 fiscal year is summarized below:

Fiscal Year Full Reimbursement Cost		
at Department of Finance approved rates		
(ILL--\$3.87; DL--\$0.73)	ILL	\$ 5,434,355
	Direct Loan	<u>\$ 7,955,245</u>
	Total	\$13,389,600
ILL & Direct Loan Program Appropriation		\$12,145,000

Final payments to reimburse all participants at 90% are currently being processed.

Recommendation:

In May the LoC Board adopted 2002/03 reimbursement rates, and as required by the Act, submitted those rates to the Department of Finance (DoF) for its approval. DoF approved the Board adopted rates (see Exhibit A); however, no increase in the program budget was indicated.

2002/03 Loan Program Reimbursement Rates as Determined by the Board
and Approved by the Department of Finance

Interlibrary Loan (per eligible transaction) \$4.49
Direct Loan (per net imbalance transaction) \$.78

Based on current projections of transactions and the reimbursement rates approved by DoF, the full State cost of the CLSA loan program for fiscal year 2002/03 is estimated to be as follows:

Eligible Public Library Interlibrary Loans	1,535,562 @ \$4.49 = \$6,894,673
Eligible Nonpublic Library Interlibrary Loans	51,000 @ \$4.49 = \$ 228,990
Net Imbalance Direct Loans	11,333,500 @ \$.78 = \$8,840,130
Estimated Total Program Cost	= \$15,963,793

If projected transaction levels are actually realized, the 2002/03 CLSA ILL and Direct Loan program appropriation would fall short of being sufficient to pay the full reimbursable cost of the program. Staff is recommending that 35% be withheld from each payment during the course of the 2002/03 fiscal year. Due to unknown increases and decreases in transaction levels in any given year, and not knowing the final TBR appropriation for 2002/03, staff has included a larger margin for transaction growth into the proposed percentage being withheld. The chart below shows the estimated percentage of the total reimbursement, if the Board decides to reduce the CLSA appropriation in any of the following ways.

	State Appropriation	Amount Withheld	Estimated % Reimbursed
A. \$610,000 from TBR only	\$11,535,000	27.7%	72.3%
B. Across board reductions	\$11,794,221	26.1%	73.9%
C. \$100,000 Data Base reduction/ Balance across board	\$11,847,857	25.8%	74.2%
D. Across board reduction except TBR	\$12,145,000	23.9%	76.1%

ISSUE 2: Consider BCP for CLSA ILL and Direct Loan programs for 2003/04.

BACKGROUND:

The shortfall in the ILL and Direct Loan program funding has been steadily declining over the last five years as the percentage being reimbursed to participants increases. This is due, in part, to the increases in the program appropriation through the BCP process. Exhibit B displays what the percent of total reimbursement would have been if Board adopted rates were used as the approved rates. Although the program budget received some relief in FY 2000/01 and 2001/02, the current year (2002/03) appropriation will show a downturn in the percentage that participants are reimbursed since there will be no dollar increase to the program budget and the possibility of a reduced appropriation.

Staff is recommending a proposed BCP amount of \$1,245,000, which is based on the rates adopted by the Board in May 2001 and approved by DoF, and the actual workload level documented for 2001/02. See chart below.

2001/02 Transaction Workloads		2001/02 Board Adopted/ DoF Approved Rate		Actual TBR Program Costs
1,404,226	x	\$3.87	=	\$ 5,434,354.62
10,897,596	x	\$0.73	=	\$ 7,955,245.08
				\$13,389,599.70
State Appropriation				\$12,145,000.00
TBR Program Shortfall				\$ 1,244,599.70

GENERAL OVERALL PROGRAM UPDATES:

CURRENT STATUS: CLSA reimbursed loan services continue throughout the state with 177 public libraries participating in FY 2002/03 (see Exhibit C). In June 2002, a memo was mailed to all CLSA participants requesting that each public library update its direct loan status (see Exhibit D). As a result, eleven public libraries changed their status to include direct loan privileges to the eligible borrowers of all public libraries statewide.

PROGRAM TRENDS: Final transaction counts for the 2001/02 fiscal year and projected totals for 2002/03 are displayed below. A history of the TBR program activity is included as Exhibit E.

2001/02 LOAN ACTIVITY					
1 st Quarter <u>Actual</u>	2 nd Quarter <u>Actual</u>	3 rd Quarter <u>Actual</u>	4 th Quarter <u>Actual</u>	2001/02 Total <u>Actual</u>	2002/03 Total <u>Projected</u>

ILL Reimbursable						
Transactions – Public	322,448	316,083	370,363	345,358	1,354,252	1,535,562
– Non-Public	11,799	11,768	13,998	12,409	49,974	51,000
Direct Loans:						
Total	6,799,293	6,668,493	7,090,525	7,373,867	27,932,178	26,900,000
Direct Loans:						
Net Imbalance	2,658,031	2,538,130	2,838,631	2,862,804	10,897,596	11,333,500

TRANSITION PROCESS: The transition process has already begun with the establishment of the Library of California interlibrary loan pilot program, which is funding nonpublic library ILL compensation. Also, the pilot program reimburses public libraries for loans to for-profit and governmental libraries; these transactions are not eligible under CLSA. Other transition benchmarks will include the establishment of a Library of California direct loan compensation program and the transfer of existing CLSA loan reimbursement funds to the Library of California budget. The Board also will adopt additional regulations, including handling cost reimbursement rates, although not necessarily before transition takes place, since basic regulations already have been established. Technically, under current Library of California regulations, elements of the CLSA loan program can transition to the Library of California as programs are established and either CLSA funds have been transferred or adequate Library of California funding has been allocated, even if additional rulemaking has not been completed (although the Board would have to adopt the CLSA reimbursement formula as the interim Library of California formula until the results of the upcoming cost study have been incorporated into regulation).

For example, one potential scenario is that the Board could take action to authorize the transition of the nonpublic library element of the CLSA interlibrary loan program to the Library of California and establish an interlibrary loan program by changing the status of its current program from pilot to permanent. This program also would augment the current CLSA ILL program for public libraries, since it would include compensation for public library loans to for-profit and governmental libraries. The Board also could propose a date for the transition of the remainder of the CLSA interlibrary loan program – the public library element – to the Library of California program, provided CLSA interlibrary loan funds have been transferred to the Library of California program budget.

RELATED ISSUE TO COME BEFORE THE BOARD IN THE FUTURE: Updates on actual and revised projections of TBR Program levels and costs.

Relevant Committee: Access Services
Staff Liaison: Sandy Habbestad

Doc. 3331